

**REPORT OF
FINANCIAL EXAMINATION**

**FARMERS MUTUAL FIRE INSURANCE
COMPANY OF DEKALB COUNTY**

**AS OF
DECEMBER 31, 2005**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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June 29, 2006
Maysville, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

FARMERS MUTUAL FIRE INSURANCE COMPANY OF DEKALB COUNTY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 109 West Jackson (P.O. Box 126), Maysville, Missouri, telephone number (816) 449-2711. This examination began on May 30, 2006, and was concluded on May 31, 2006, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2000, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Management and Control

Comment: It was recommended that the Board of Directors set forth the Company's investment, agent payment process and inspection policies in written form.

Company Response: The Company has addressed the noted issues in its procedure manual.

Current Findings: The procedure manual maintained by the Company adequately addresses the business of the Company.

Accounts and Records

Comment: The Company was directed to report a guaranty fund amount of \$150,000 in accordance with RSMo 380.271.

Company Response: The Company currently reports a guaranty fund on the Annual Statement.

Current Findings: The Company reported an adequate balance in the guaranty fund during all years under examination.

HISTORY

General

The Company was organized and incorporated on March 1, 1897, as Farmers Mutual Fire Insurance Company of DeKalb County.

The Company has a Certificate of Authority dated June 14, 1996, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is

renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of eight members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and are compensated \$50 per each meeting attended. The Articles of Incorporation require the Board of Directors to consist of nine members; however, the Board of Directors consisted of only eight members during the examination period. It is recommended the Company comply with the provisions of its Articles of Incorporation regarding Board of Director membership.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Gene Esely 6872 SW State Road J Osborn, Missouri	Conservation Technician	2004-2007
James Mason 5012 NE Hebron Road Maysville, Missouri	Retired	2005-2008
Greg Pottratz 4610 NW State Route E Maysville, Missouri	Manufacturing Supervisor	2003-2006
Bill McMillan #1 Gibson Road King City, Missouri	Fertilizer Company Employee	2003-2006

Keith Meek 5362 SE State Route C Cameron, Missouri	Farmer/Self-Employed	2004-2007
John Murphy 3398 SW Lakesite Road Maysville, Missouri	Farmer/Insurance Agent	2004-2007
Mitchell Parkhurst 653 SE State Route EE Weatherby, Missouri	Bank Executive	2005-2008
Greg Carrel P.O. Box 35 Clarksdale, Missouri	Insurance Agent	2005-2008

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

Mitchell Parkhurst	President
John Murphy	Vice-President
Cathy Freeman	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On February 12, 2002, the Company amended the Articles of Incorporation and Bylaws whereby all references to “assessments” were changed to “premiums,” to facilitate the Company’s conversion to a non-assessable company. The Articles of Incorporation were also amended to expand the Company’s operating territory from DeKalb county to the entire state of Missouri.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$500 deductible in aggregate for each claim.

The Company carries errors and omissions liability coverage for its director/producers and requires its independent producer to carry errors and omissions liability coverage.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees. The Company provides health insurance benefits for the employees and matches contributions of up to 3% of each full-time employee's gross salary into individual retirement accounts. Depending on years of service with the Company, employees receive two to three weeks of paid vacation per year and are allowed one-half to five days of sick leave per year. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by eight licensed producers who are also directors of the Company and one independent producer. The producers receive an 18% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS and MAMIC policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the producers.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$1,897,099	\$203,540	\$576,436	\$114,706	\$59,486	\$24,592	\$75,663
2004	1,812,353	194,457	546,770	392,215	61,828	(75,984)	(23,174)
2003	1,850,445	207,361	471,721	136,441	69,452	16,743	75,685
2002	1,741,414	176,386	389,491	205,879	80,409	(45,474)	23,602
2001	1,741,326	201,632	413,800	198,539	92,439	(29,868)	45,865

At year-end 2005, 946 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$413,800	\$389,491	\$467,587	\$542,476	\$576,436
Assumed	0	0	4134	4,294	4,559
Ceded	<u>(97,636)</u>	<u>(43,532)</u>	<u>(67,111)</u>	<u>(162,510)</u>	<u>(205,921)</u>
Net	<u>\$316,164</u>	<u>\$345,959</u>	<u>\$404,610</u>	<u>\$384,260</u>	<u>\$375,074</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 1% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$40,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$140,000 and the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$190,000 for commercial and confinement risks and \$390,000 for all other risks. The 2005 premium rate, as a percentage of written premiums, equaled 7.51%

for layer one coverage and 2.00% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$140,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,140,000, and the reinsurer's limit is 100% of \$3,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$6,000,000 for the second layer. The 2005 premium rate was \$.1858 and \$.1996 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 100% of losses in excess of 75% of the Company's net written premium. The 2005 reinsurance rate was 3.0% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The CPA firm of Van de Ven, LLC compiles the financial statements and Annual Statement and prepares the Company's tax returns.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are

made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2005

Real Estate	\$ 70,482
Cash on Deposit	1,801,526
Computer Equipment	868
Federal Income Tax Recoverable	610
Interest Due and Accrued	7,225
Prepaid Insurance	5,408
E&O / D&O Pool Investment	10,980

Total Assets	\$ 1,897,099
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2005

Ceded Reinsurance Payable	\$ 1,932
Unearned Premium	198,625
Accounts Payable	2,983

Total Liabilities	\$ 203,540

Guaranty Fund	\$ 150,000
Other Surplus	1,543,559

Total Surplus	\$ 1,693,559

Total Liabilities and Surplus	\$ 1,897,099
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STATEMENT OF INCOME
December 31, 2005

Net Premium	\$ 370,682
Other Insurance Income	24,951
Net Losses Incurred	(118,320)
Other Underwriting Expenses	(252,721)

Net Underwriting Income (Loss)	\$ 24,592

Investment Income	\$ 59,486
Other Income	375

Gross Income (Loss)	\$ 84,453
Federal Income Tax	(8,790)

Net Income (Loss)	\$ 75,663
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2005

Policyholders' Surplus, December 31, 2004	\$ 1,617,896
Net Income (Loss)	75,663

Policyholders' Surplus, December 31, 2005	\$ 1,693,559
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NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Management (Page 3)

It is recommended the Company comply with the provisions of its Articles of Incorporation regarding Board of Director membership.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Fire Insurance Company of DeKalb County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

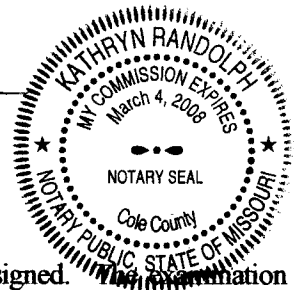

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 29th day of June, 2006.

My commission expires:

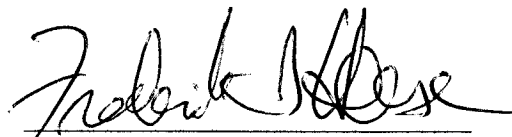
March 4, 2008


Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance



The Farmers Mutual Fire Insurance Company
of DeKalb County
MAYSVILLE, MISSOURI

August 22, 2006

RECEIVED

AUG 24 2006

DIVISION
FINANCIAL REGULATION

Kirk Schmidt, CFE, CPA
Department of Insurance
P. O. Box 690
Jefferson City, MO 65102-0690

Dear Mr. Schmidt;

This letter is in response to the Examination Report that was received by our Company.

Farmers Mutual Fire Insurance Company of DeKalb County will revise their Articles of Incorporation to show that the Board of Directors will only consist of (8) eight members. This change will be adopted during our next Annual Meeting to be held the second Tuesday in February, 2007.

If there are any questions or concerns, please feel free to contact this office.

Sincerely,

Cathy Freeman, Office Manager
Farmers Mutual Fire Insurance Company
Of DeKalb County

Cc: File